

1 Q. **Depreciation**

2 Exhibit 11, page 13. The statement “However, if there are no replacement assets
3 (i.e., meaning replacement in the exact same location), then Concentric Advisors
4 recommends that cost of removal will be charged to accumulated depreciation.”
5 Please confirm that NLH was made aware that Manitoba Hydro, upon adoption of
6 IFRS, elected to take the exact opposite approach to what Concentric Advisors
7 recommends – that is, Manitoba Hydro previously recorded cost of removal in
8 accumulated depreciation but elected to terminate this approach (with the support
9 of its regulator) upon conversion to IFRS:

10 https://www.hydro.mb.ca/regulatory_affairs/electric/gra_2014_2015/pdf/appendi
11 [x_5_4.pdf](https://www.hydro.mb.ca/regulatory_affairs/electric/gra_2014_2015/pdf/appendi).

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14 A. This response was provided by Concentric Advisors (Concentric).

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16 Confirmed. Concentric advised Hydro on the various methods of collection of costs
17 or retirement, and discussed the various regulated utilities that use each approach,
18 including that of Newfoundland Power, which has, for many years, recovered net
19 salvage costs through depreciation rates.

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21 Concentric does want to clarify the premise of this question. It was a policy decision
22 of Manitoba Hydro to move forward with the salvage approach as filed in their
23 General Rate Application. Concentric understands that the policy decision made by
24 Manitoba Hydro was based on the IFRS standards at the time that the depreciation
25 study was completed. Specifically, the timing of the implementation of IFRS for
26 Manitoba Hydro precluded the use of IFRS 14 in their circumstance, as IFRS 14 did
27 not exist in its current form at the time of the Manitoba Hydro depreciation study.

1 IFRS 14(IN4) states: *“This standard is effective for annual periods beginning on or*
2 *after 1 January 2016. Earlier application is permitted.”* As such, the recommended
3 approach of Mr. Kennedy for Hydro in this proceeding was not available to Manitoba
4 Hydro at the time of their implementation.